

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Humboldt Unified School District No. 22

As of October 23, 2008



Debra K. Davenport
Auditor General

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STATE OF ARIZONA
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February 24, 2009

Governing Board
Humboldt Unified School District No. 22
8766 East Highway 69
Prescott Valley, AZ 86314

Members of the Board:

In our December 2007 compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2006. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of October 23, 2008. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2007, audit reports and USFR Compliance Questionnaire, as well as other internal control deficiencies we were aware of at the time of our review. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

We acknowledge the District's diligence in correcting its deficiencies. As a result, the District has complied with the USFR. However, we must emphasize that a number of deficiencies still exist. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls and to continue to comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Humboldt Unified School District No. 22 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$44.6 million it received in fiscal year 2007 to provide this education.

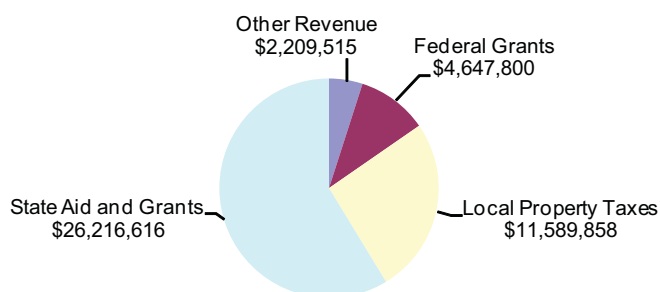
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District complied with the USFR. However, we noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to continue to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2007

County: Yavapai
Number of Schools: 10

Number of Students: 6,105
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2006-2007 and Humboldt Unified School District No. 22 Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007.*

FINDING 1

The District should strengthen the controls over its bank accounts

The District receives monies from various sources, including auxiliary operations and student activities. Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash. Additionally, the Governing Board is responsible for establishing oversight for student activities monies to ensure that proper procedures are followed for collecting and spending them. However, proper controls and oversight were not established for cash receipts and disbursements. Specifically, the District did not always properly complete or retain documentation to support student activities and auxiliary operations cash collection reports; therefore, sales could not be reconciled to cash collections. In addition, the District did not always deposit student activities and auxiliary operations cash receipts in a timely manner. Further, the District did not always retain documentation to support that student activities disbursements were properly authorized by or on behalf of the student members of the student club, and the District made disbursements from the Maintenance and Operation (M&O) revolving account that should have been processed through the normal expenditure process.

Poor cash controls left student and district monies susceptible to loss, theft, or misuse.

Recommendations

To strengthen controls over its bank accounts, the District should:

- Prepare activity or cash collection reports, as applicable, to document sales and reconcile cash collected to cash receipt forms issued or the number of tickets or items sold. For events where it is not practical to determine the number of items sold, such as bake sales, clubs must still prepare a cash collection report to document cash collected.
- Deposit all cash receipts intact daily when significant, or at least weekly, in the appropriate district bank account.
- Obtain student approval for all student activities disbursements. Club meeting minutes should document such approval, be signed by a club officer, and retained with the supporting documentation for the disbursement.
- Ensure all students activities fund-raisers are approved in advance.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21

- Use the M&O Fund revolving account only for activities that require immediate cash outlays such as postage, freight, express, fuel taxes, parcel post, travel, and other minor disbursements. Ensure that other types of purchase requests are made in a timely manner to ensure that expenditures can be processed through the normal voucher process, and the food service change fund should be established from a warrant drawn on the Food Service Fund.

FINDING 2

The District's controls over competitive purchasing and expenditures should be improved

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules and USFR guidelines. For example, the District inappropriately selected additional vendors with written price quotations to provide services after it had already completed the requests for proposals process and awarded the contracts to other vendors. Also, the District did not retain documentation of the vendors' reasons for not providing quotations when less than three written price quotations were received.

Further, the District did not have adequate controls to help ensure that expenditures were properly recorded and did not ensure access to its computerized accounting system was restricted. Specifically, the District did not ensure that cash was available in cash-controlled funds before authorizing expenditures from them, and grant funds were not always recorded in accordance with the USFR Chart of Accounts. Finally, the District did not appropriately restrict access to its computerized accounting system as some employees had more access to the system than was needed to perform their job duties.

The District did not ensure that cash was available in cash-controlled funds before making expenditures from those funds.

Recommendations

To improve controls over competitive purchasing and expenditures, the District should:

- Follow the School District Procurement Rules for purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689.
- Obtain written price quotations from three or more vendors for purchases estimated to cost at least \$15,000 but less than \$33,689. If three quotations cannot be obtained, the District should document the vendors contacted who did not offer price quotations and the reasons for not doing so.

- Verify that sufficient cash is available in cash-controlled funds before making expenditures from them. Further, the County Treasurer must separately account for levy funds and nonlevy funds as required by Arizona Revised Statutes §15-996.
- Assign fund numbers and record transactions in accordance with the USFR Chart of Accounts.
- Review employees' responsibilities and need to access critical accounting functions, such as those involving payroll. Ensure that access is restricted in its computerized accounting system to the minimum number of employees corresponding to their respective duties.

FINDING 3

The District should maintain accurate and complete capital assets, stewardship, and inventory lists

The District has invested a significant amount of money in its capital assets and stewardship items. In order to protect its investment, the District should have an accurate list of these assets to ensure they are properly identified, accounted for, and safeguarded. In addition, the District uses financial resources to purchase various inventory items. Effective internal control procedures help maintain accurate inventory lists and also help to prevent theft, overstocking, and obsolescence of inventory items. However, the District did not accomplish these objectives. Specifically, the District did not verify the accuracy of cost information recorded on the previous year's capital assets list. Also, the District did not include all stewardship items on the stewardship list, and the capital assets and stewardship lists included temporary tag numbers. Further, the District's auxiliary operations bookstore inventory list at one school did not include all of the required information.

Recommendations

The following procedures can help the District ensure its capital assets, stewardship, and inventory lists are accurate and complete:

- Prepare and maintain a detailed capital assets list that includes all equipment and vehicles with unit costs of \$5,000 or more and useful lives of 1 year or more, and all land, buildings, and related improvements with costs of \$5,000 or more. The capital assets list should be updated annually and include all required information.
- Prepare, maintain, and update annually a stewardship list for items costing between \$1,000 and \$5,000 that includes each item's description, identification number (tag number), location, and the month and year of acquisition.
- Affix a permanent tag with an identifying number to each equipment item costing \$1,000 or more, or specifically identify the asset on the list by some other means, such as a serial number. Items on the District's capital assets and stewardship lists identified by temporary tag numbers should be tagged with a permanent tag number, and the lists should be updated with the permanent tag numbers.

Instructions for obtaining and documenting capital asset cost information are included on USFR pages VI-E-3 through 5.

- Prepare supplies inventory lists annually that include all required information, such as item and unit descriptions, purchase document numbers, quantities on hand, unit costs, extended costs, page totals, and a grand total.